

SUBMISSION TO THE COMMONWEALTH STANDING COMMITTEE ON INFRASTRUCTURE, TRANSPORT AND CITIES' INQUIRY INTO THE AUSTRALIAN GOVERNMENT'S ROLE IN THE DEVELOPMENT OF CITIES.

Compass welcomes the opportunity to make a contribution to the inquiry into the Australian Government's role in the development of cities.

Compass is an international not-for-profit community housing provider with more than 4500 properties and community development initiatives across Australia, New Zealand and Vanuatu. Compass is the only Australian based community housing provider (CHP) to be recognised by the United Nations Economic and Social Council (ECOSOC).

Compass welcomes the Australian Government's commitment to sustainable urban development and offers the following observations and feedback.

EXECUTIVE SUMMARY

This paper makes the following points:

The Commonwealth needs to be involved in urban development planning and monitoring of cities for several reasons including:

1. The Commonwealth has given undertakings to the international community in various United Nations forums and General Assembly resolutions concerning cities that it needs to have a role in ensuring fulfilment, for examples the Paris Agreement, Agenda 2030 (Sustainable Development Goals) and the New Urban Agenda;
2. The Commonwealth has a primary role in trade and the national economy which is underpinned by the efficiency of cities and infrastructure requirements, including social infrastructure (e.g. affordable housing);
3. The Commonwealth has a primary role in immigration policy which is underpinned by the adequate provision of infrastructure, including social infrastructure (e.g. affordable housing) for either immigrating households or those who are displaced from the housing system due to scarcity;
4. The growing international trend towards polycentric cities and transport hub cities connected by enhanced mobility in mega cities should be logic that is applied to Australia's east coast and more specifically and obviously between Newcastle, Central Coast and Sydney;
5. Affordable Housing is a key economic as well as social infrastructure investment.

Information to be delivered by Greg Budworth, Group Managing Director, Compass Housing Services and Vice President of the General Assembly of Partners to UN Habitat, on 2 March 2018.

INCREASING SUSTAINABILITY IN EXISTING CITIES

Among the many international commitments made in the last 10 years, in 2016 the Australia signed up to the United Nations *New Urban Agenda* (NUA) - a 20 year roadmap that aims to help countries rethink how they plan and manage urban development. In the NUA, Australia committed to undertakings to have its cities *sustainable, liveable, safe and inclusive* and to the concept of “*leaving no-one behind*” – “*cities for all*”. It committed itself to public policy, funding and partnerships with state and local governments and other stakeholders in delivering on these commitments. The Commonwealth needs to deliver on these commitments and thus has an important role in cities and urban development.

The Cities for All concept involves addressing the major challenges of rapid urbanisation like poverty, inequality and social exclusion. Despite being relatively more advanced in these areas than many other countries, Australia still has lessons to learn.

The reason cities create value, and the reason so many of us choose to live in them, is because they create economic efficiencies (economies of agglomeration) by drawing together the factors of production and reducing the costs of transactions, both in commercial markets and within the social and community sectors. Obviously, there are things that help this process of agglomeration, and there are things that hinder it – crime and pollution for example. In Australia’s major cities however, the lack of affordable housing has become the single greatest force against this kind of agglomeration, with workers increasingly forced to move to the outskirts of our cities, or relocate altogether, in search of somewhere they can afford. As this submission will demonstrate, this process of socioeconomic segregation has major implications for the broader economy.

The NUA rightly places housing at the centre of sustainable and inclusive urban development and encourages housing initiatives for people at all points of the socioeconomic spectrum. Despite having signed up to the NUA, the Australian Government is yet to adopt policies that indicate a desire to work towards its implementation. While there is a tendency for policy makers to view social and affordable housing as a form of welfare, and therefore as a “cost”, Compass believes the reality is quite different. The availability or otherwise of adequate and affordable shelter has a range of effects on the broader economy which warrant it being recognised as key economic infrastructure.

AFFORDABLE HOUSING AS KEY ECONOMIC INFRASTRUCTURE

"The lack of housing affordability – if it's uncontrolled, if it's so huge that it generates social segregation of population or economic activities, this is a kind of cancer for a city."

"It can destroy the fabric of a city. Because the magic of a city, the reason a city creates value ... is the proximity of the factors of production and the reduction of the cost of transaction."

Dr Joan Clos – Former Executive Director and Under Secretary General, United Nations Habitat program - May 2017, Melbourne

Before we explore the concept of housing affordability further, it is important to be clear about what we mean by “affordable”. Generally speaking, housing is considered affordable if it costs less than 30% of a household’s gross income. This definition is generally restricted to households with

incomes up to 120% of the median due to the ability for higher earning households to expend a larger proportion of their income on housing costs without having to moderate spending in other areas.

The soon to be released report by Professors Duncan Maclennan, Laura Crommelin, Ryan van den Nouwelant and Bill Randolph of City Futures Research Centre, University of NSW to the NSW Federation of Housing Associations, available from 15 March, states that: *“The report argues for a new narrative for housing policy discussions that considers housing arrangements that will best sustain metropolitan economic development the long term. Housing outcomes, including house price and rent levels, have a range of unrecognised and unmeasured effects on the economy, so that supporting housing policies is about more than social justice.”*

This logic was also clearly demonstrated at the recent World Urban Forum in February 2018 in Kuala Lumpur, where several responsible national Ministers from various parts of the world have come to a similar conclusion that investment in affordable housing is an economic investment as well as social justice expenditure. The subject was discussed at the High Level Round Table *“Cities for All and Housing at the Center”* on 9 February 2018.

Another useful measure of affordability is known as the median multiple, (sometimes called the price-to-income ratio). It is produced by dividing the median dwelling price by the median household income. The resulting figure is the number of years’ worth of median household income required to buy a median-priced dwelling. A score of more than 5 is considered “severely unaffordable”. Each year *Demographia* publishes affordability data from around 400 cities across the world using the median multiple as the unit of measurement. For several years now, Australia has had the dubious honour of having some of the least affordable housing anywhere in the world.

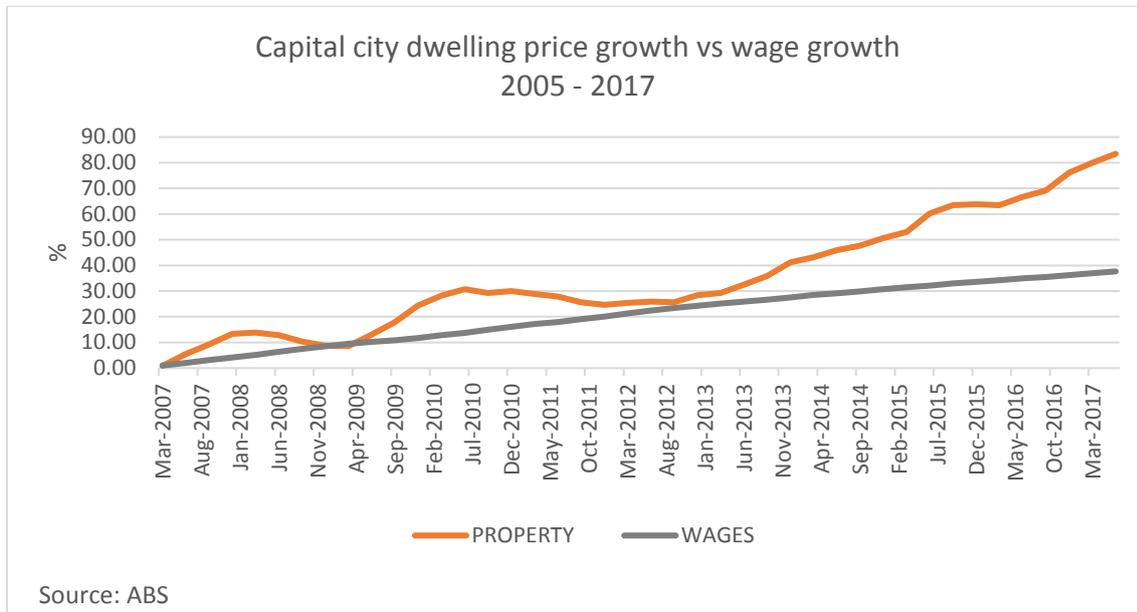
| Rank: | City | Median multiple |
|-----------|-------------------|-----------------|
| 1 | Hong Kong | 19.4 |
| 2 | Sydney | 12.9 |
| 3 | Vancouver | 12.6 |
| 4 | San Jose | 10.3 |
| 5 | Melbourne | 9.9 |
| 6 | Los Angeles | 9.5 |
| 7 | Honolulu | 9.2 |
| 8 | San Francisco | 9.1 |
| 9 | Auckland | 8.8 |
| 10 | London | 8.5 |
| 16 | Adelaide | 6.6 |
| | Newcastle* | 6.6 |
| 18 | Brisbane | 6.3 |
| 21 | Perth | 5.9 |

Source: Demographia International Housing Affordability Survey 2018, <http://www.demographia.com/dhi.pdf>, ABS

*Newcastle is not included in the 2018 Demographia Report. The median multiple in the above table is based on the 2017 Report.

Between 2005 and 2017, capital city dwelling prices in Australia increased by 83%. Over the same period, wages increased by just 38%. This state of affairs is neither normal, nor sustainable. For most

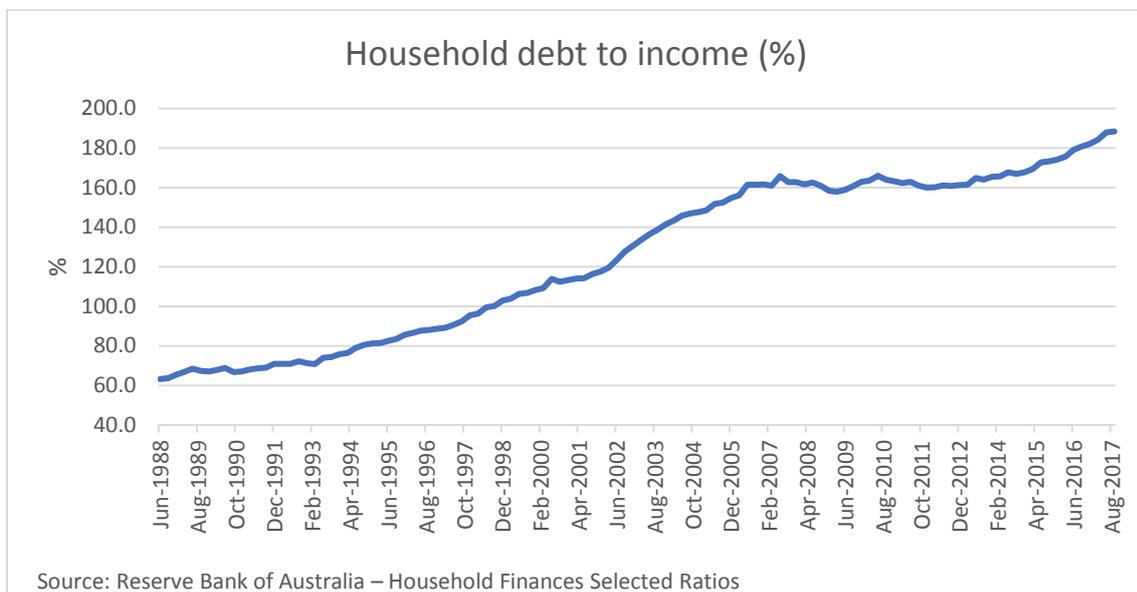
of the 20th Century, Australia’s average house price-to-income ratio was less than four. In fact, if price-to-income ratios had remained at 1980s levels, the current median house price in Sydney would be just \$364,000. Achieving a return to long-term average price-to-income ratios would involve prices falling by more than 60% or median incomes rising by more than 200%.



The lack of housing affordability has a range of economic consequences that often go unrecognised including:

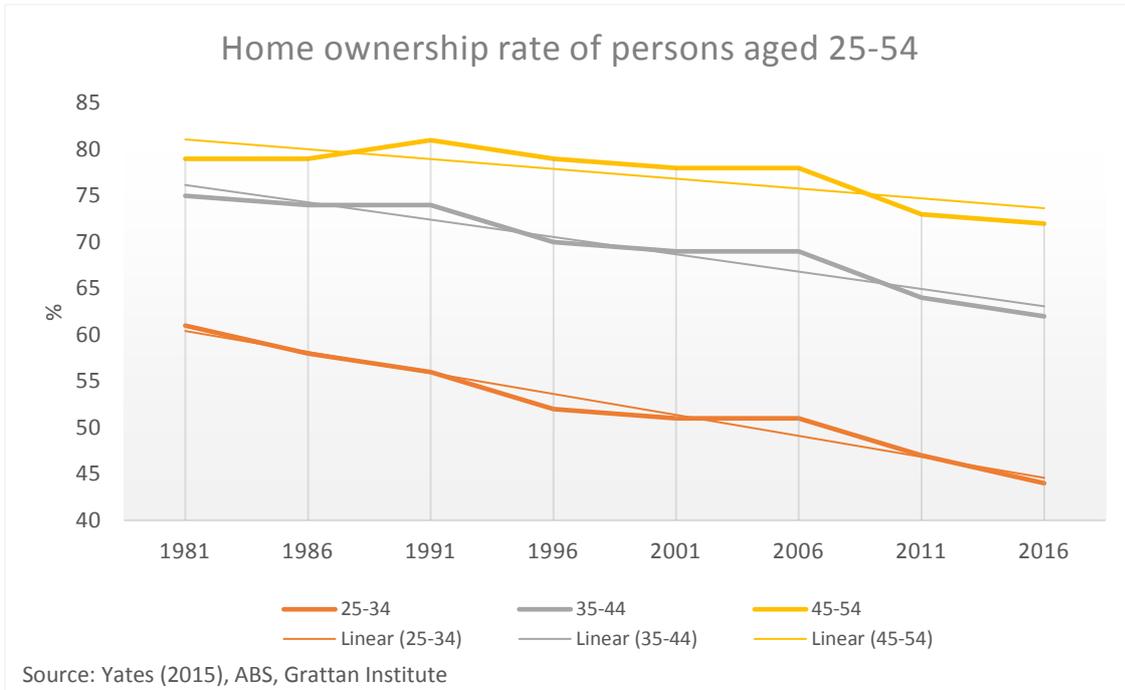
Increased levels of household debt

With average household debt close to 200% of income, Australian households are now among the most heavily indebted in the world. This makes them highly vulnerable to interest rate rises or increases in the cost of essentials and utilities.



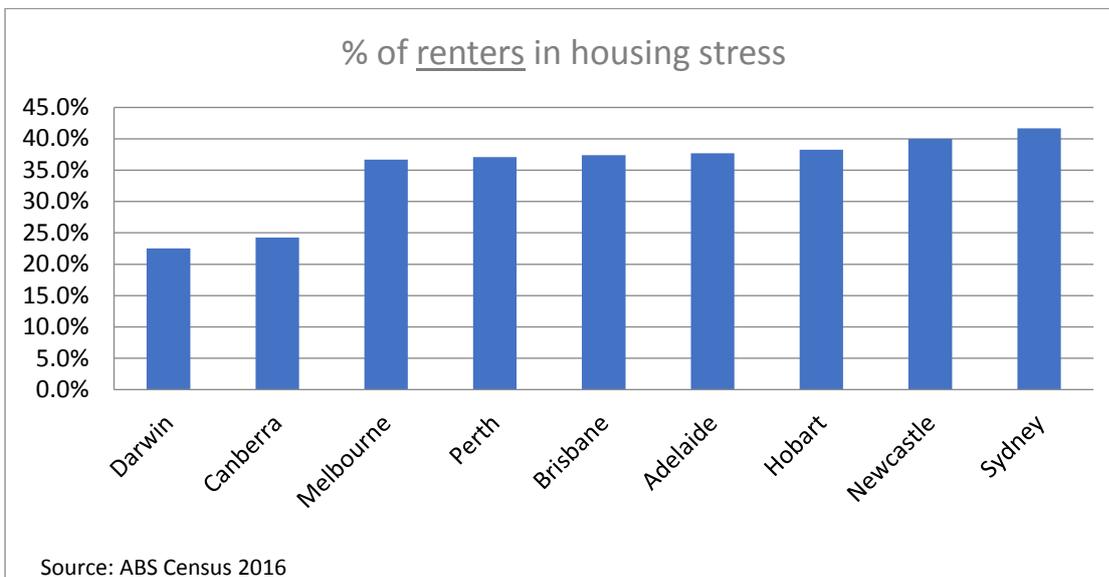
Declining levels of home ownership

Between 1981 and 2016, home ownership rates for persons aged 25-54 have fallen sharply with the biggest falls being observed among younger cohorts.



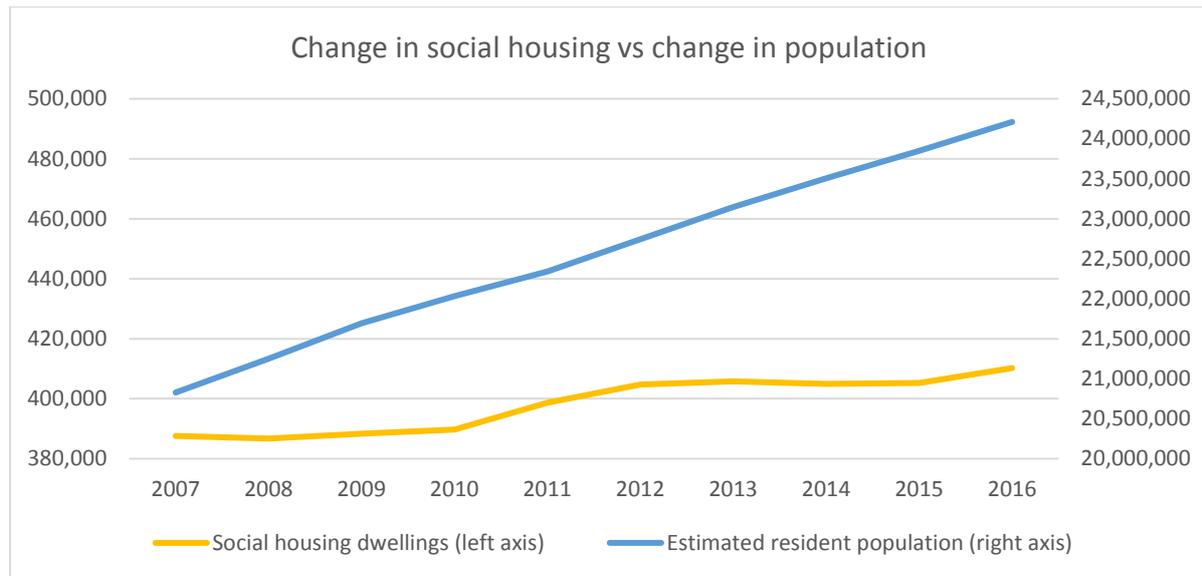
An increased proportion of renters in housing stress

As housing affordability worsens, prospective first home buyers remain in the rental market for longer creating extra competition for the limited number of affordable rentals and placing lower income households under increased pressure.



More pressure on the already swamped social housing system

There are more than 200,000 households on social housing waiting lists across the country. Social housing is the only form of benefit to which access is rationed in this way. The ABS estimates approximately 100,000 Australians are homeless on any given night. Despite rapid population growth over the previous decade, there has not been a commensurate increase in the supply of social housing dwellings.



Extra pressure on the retirement system

The future viability of Australia's superannuation system and its age pension system are founded on the unspoken assumption that by the time a person reaches retirement age, they will have very few housing costs. The ongoing decline in housing affordability however, will have two obvious consequences, both of which severely undermine that premise. The first consequence of skyrocketing house prices is that more people will become lifelong renters and therefore continue to have significant housing costs in their old age.

The second consequence, is that more home owners will reach retirement age without having paid off their mortgage and will therefore be likely to use up a large portion of their superannuation in doing so, thereby leaving less to cover ongoing living expenses.

The result in both cases will be increased demand for the age pension, and for housing benefits like Commonwealth Rent Assistance (CRA).

HOW THE TRAJECTORIES OF EXISTING CITIES CAN BE DIRECTED TOWARDS A MORE SUSTAINABLE URBAN FORM THAT ENHANCES URBAN LIVEABILITY

As noted above, Australia's major cities are suffering from a crisis of housing affordability that risks undermining their very reason for existence. While housing prices appear to have peaked and (despite the somewhat bizarre anomaly of Hobart) appear to be stagnant or in slight decline, they remain severely unaffordable by international standards. Even less expensive cities by Australian standards like Adelaide, Darwin and Perth (which has experienced a substantial decline in prices since the end of the mining boom), feature prominently on *Demographia's* list of the world's least affordable housing markets.

The major contributors to the problem are easy enough to identify. The most obvious is the government's abrogation of its responsibility to provide adequate housing for its citizens. At the end of the Second World War, Australia faced a severe housing crisis. In the decade that followed, despite a severe labour shortage and record levels of debt, state and federal governments combined to create more than 670,000 homes. Seventy years later we are facing the prospect of a substantial decline in living standards, driven largely by out of control housing costs, but this time we appear to have no national plan on how to respond. In fact, instead of taking an active role in addressing the problem, governments of both persuasions persist with policies that actually make it worse.

Millions of words have been written about the pros and cons of tax arrangements that incentivise speculative investment in residential property, but the following statistic is particularly illuminating: In the early 90s, first homebuyers and investors each accounted for roughly 20 per cent of new mortgages issued by the banks. Today, the share of lending going to first home buyers is less than 10 per cent, while the share going to investors has risen to over 40 per cent.

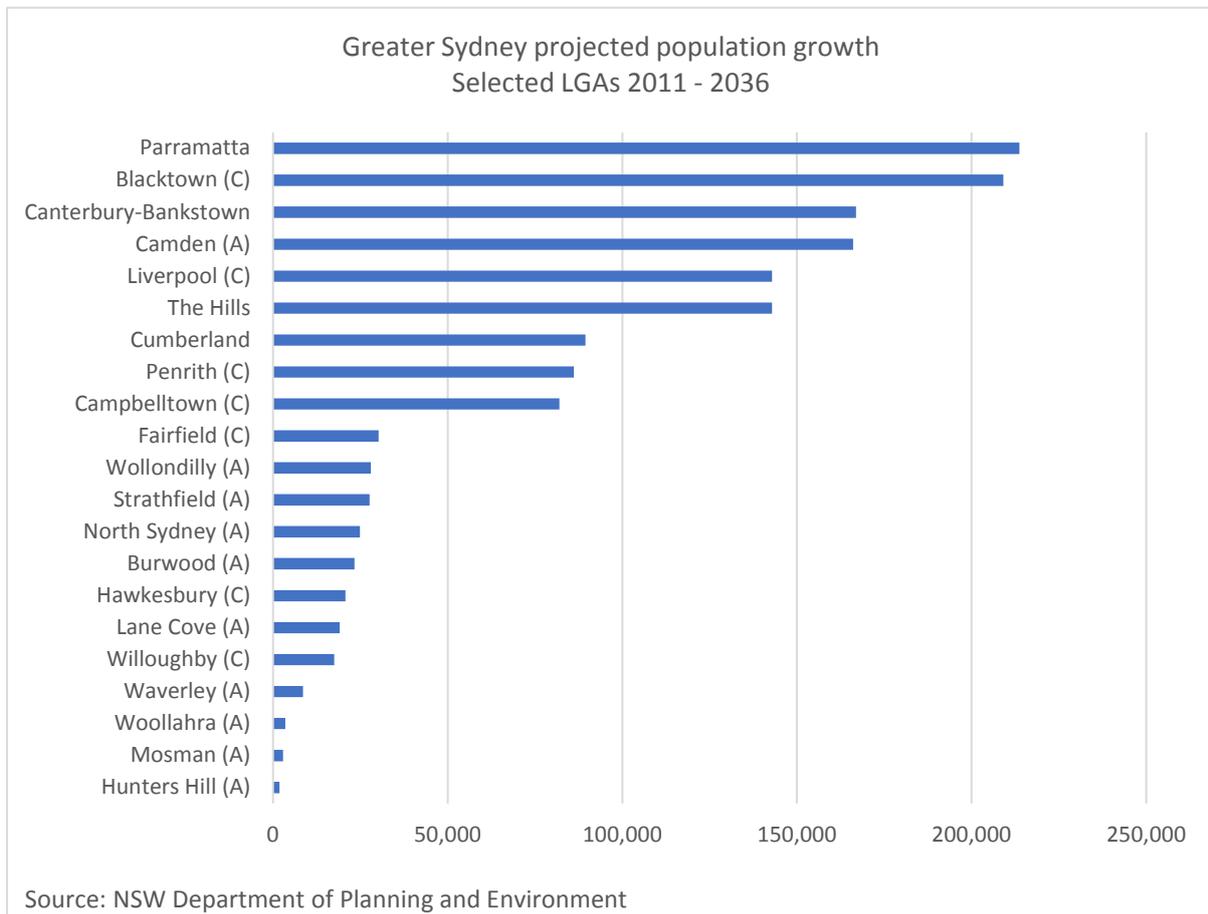
Another major contributor to housing affordability that is within the Australian Government's power to control is the rate of population growth. Rapid increases in population will necessitate a corresponding increase in public infrastructure, including social housing, and, as noted above, Australia's track record on providing sufficient social housing to accommodate that segment of the growing population that requires it, is not cause for optimism.

There is also a strong potential for the socioeconomic segregation of Australia's cities that is already underway due to elevated dwelling prices to be exacerbated by the inequitable geographic distribution of planned population growth. Looking at official growth forecasts for Sydney as an example, it is impossible to ignore the extent to which projected population growth is set to be concentrated in lower SES LGAs in Western Sydney while almost none is scheduled to occur in the more affluent neighbourhoods closer to the CBD.

Figures from the Department of Planning and Environment show LGAs like Parramatta and Blacktown can expect to see their populations grow by more than 200,000 over the next 15-20 years.

Meanwhile, wealthy harbourside enclaves like Mosman, Woollahra and Hunters Hill are scheduled to experience almost no population growth at all. Compass suspects these growth patterns, were they to eventuate, and would serve to heighten public cynicism towards civic leadership.

Compass understands the Committee has been asked to inquire into how the trajectories of existing cities can be directed towards a more sustainable urban form. One fairly obvious option would be to adopt a more equitable distribution of projected population growth.



POPULATION GROWTH AND THE IMPLICATIONS FOR INFRASTRUCTURE SPENDING

On the topic of population growth, Compass draws the Committee’s attention to the need to be cautious when relying on official forecasts. In 1998 the ABS predicted the population would hit 24.9 million by 2051. As we now know, Australia will have passed that figure by the middle of this year, more than 30 years ahead of schedule. Indeed, the latest forecasts suggest the population in 2051 will be more than 37 million – approximately 12 million higher than was forecast in 1998.

There is no question that immigration produces significant benefits for our country. However, given the existing pressure on infrastructure, particularly in our capital cities, it is incumbent on policy makers to ensure the rate of intake does not exceed the capacity of the country to provide the level of infrastructure, including social infrastructure, necessary to avoid placing additional pressure on the living standards of the existing population, particularly those displaced from the housing market.

This is an important point. The Productivity Commission has previously raised serious questions about the ability of the states and territories to provide sufficient infrastructure to service the

current rate of population growth which, Compass notes, was 1.6% in the year to June 2017 - significantly above both the OECD average and Australia's own long-term average. At an annual growth rate of 1.6%, Australia's population will double by 2063. Maintaining existing living standards will necessarily require a doubling of existing infrastructure. Considering it took 230 years for Australia to produce the infrastructure it has in place right now, it seems optimistic to suggest we could double it in the next 45 years.

GROWING NEW AND TRANSITIONING EXISTING SUSTAINABLE REGIONAL CITIES AND TOWNS & POLYCENTRICITY OF URBAN GROWTH

De-centralisation has been an objective of Australian policy makers for a long time, however to date, little headway has been made. Indeed the official population forecasts produced by the NSW Department of Planning and Environment for example, suggest 80% of NSW's population growth over the next 20 years will be absorbed within the Greater Sydney area.

There are some obvious reasons why this occurs, for example, the understandable desire of new migrants to settle where there are significant numbers of people from a similar ethnic background, and the current tendency for employment opportunities to be concentrated in our major capitals.

It is possible this trend could be arrested therefore, if regional centres were able to provide incentives and conditions that encourage employers to relocate operations to regional centres. As the Acting US Ambassador to Australia, James Carouso, recently advised, at a meeting of the Hunter Business Chamber, there is no obvious reason, beyond corporate vanity, why businesses that do not rely on walk-in customers need to be paying exorbitant commercial rents to secure office space in the CBD of a major capital city. Carouso highlighted the example of companies that were willing to pay extremely high rents for commercial office space on Wall Street, despite having business models that could operate from anywhere in the world.

The Australian Government could contribute to the economic development and urban sustainability of regional centres by promoting the relative affordability and lifestyle benefits, and by incentivising private investment in regional infrastructure. Catalysing the growth of regional centres either by direct investment or by incentivising private investment, would also relieve a range of pressures on major capitals by diverting population flows.

The proposed high speed rail (HSR) link between Brisbane and Melbourne, and specifically between Newcastle and Sydney, is an illustrative example of the impact nation-building infrastructure could have on regional communities. For example, the High Speed Rail Study Phase 2 report produced by the Department of Infrastructure, Regional Development and Cities estimates the travel time between Newcastle and Sydney via HSR to be less than 40 minutes. Were this to eventuate, the implications for the Greater Newcastle Metropolitan Area would be profound. If nothing else, transforming a daily commute into a viable option, would likely generate a substantial increase in the local population over and above official projections as Sydneysiders migrate north in search of more affordable housing and less congestion.

Additionally, the intention of Newcastle Airport becoming an international airport combined with HSR links would also be mutually advantageous.



The case for planning a move to polycentric cities, using international observations and domestic logic was well made by the Greater Sydney Commission's concept of a "*metropolis of three cities*" and citing the PricewaterhouseCoopers (PwC) report on Melbourne stating that a 30 minute maximum commute was essential with regards to agglomeration economies of cities.

Beyond that, it is vital that rapid mobility links occur between the cities immediately north and south of Sydney: Newcastle/Central Coast and Wollongong and those cities are connected within or near to the approximated maximum commute times identified by the PwC report.

Compass once again wishes to thank the Australian Government for the opportunity to contribute to the inquiry and looks forward to continuing our productive relationship in the years ahead.

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FURTHER READING

Demographia International Housing Affordability Survey 2018,
<http://www.demographia.com/dhi.pdf>

Sydney and Melbourne should be polycentric cities:
<https://www.governmentnews.com.au/2017/10/sydney-melbourne-polycentric-cities/>

Cities for All and Housing at the Center High Level Roundtables, 9th session of World Urban Forum, Kuala Lumpur, 7-13 February 2018

<http://webtv.un.org/search/cities-for-all-and-housing-at-the-center-high-level-roundtables-9th-session-of-world-urban-forum-kuala-lumpur-7-13-february-2018/5729699248001/?term=HighLevel&cat=Meetings%2FEvents&sort=date&page=2>

NSW Federation of Housing Associations: UNSW Report to be published from 15 March 2018:

http://communityhousing.org.au/A1_about_NSWFHA.html